

December 4, 2007

To: CalPERS Health Benefits Committee

From: Watson Wyatt Worldwide

Subject: CalPERS Rate Negotiation Process

Summary

Watson Wyatt Worldwide was asked to provide an opinion on the CalPERS health benefits rate negotiation process. Our preliminary comments were presented verbally at the November 14, 2007 CalPERS Health Benefits Committee meeting. Those comments are repeated below and updated to reflect subsequent conversations with Staff and additional thinking.

Overall Opinion

Watson Wyatt found that CalPERS has a rate negotiation process in place today, which includes: a detailed project plan of events used by Staff, a Rate Development Process work flow chart, robust utilization of internal resources (tenured staff with significant institutional knowledge and analytics supported by the data warehouse) and the use of external consultants to negotiate effectively with the health plans. This is a reasonable rate negotiation process.

The analytical documents we received coupled with our discussion with Staff lead us to believe that the analytical review of the renewals themselves is rigorous and sound. It should be noted that these comments are based on our review of the data that is analyzed and not a comprehensive review of the analytics themselves.

The compressed process, while of concern to certain CalPERS Board members, is a common phenomenon, and the nature of all health plan renewals. At CalPERS, the process generally occurs over a six (6) month period (January – June). This compressed decision making cycle is necessary as organizations try to balance the desire to obtain the most contemporary data to forecast rates without compromising program operations – such as member communications and open enrollment.

Our recommendations for improving the rate negotiation process focus instead on the need to address and improve communications between Staff and the Health Benefits Committee (HBC). Broadly, we recommend that Staff develop and implement improved processes in the following areas:

- communicating the timing of events specifically affecting the Health Benefits Committee,

- identifying the nature and depth of the information that is valuable and appropriate for decision and policy-making purposes by the HBC, and making that information available, and
- identifying, at the beginning of the rate negotiation cycle, the nature of alternatives and analysis likely to take place and the rationale for that analysis and those alternatives, and the implications of those alternatives relative to the CalPERS strategic plan.

Basis of Opinion

Our opinion and findings are based on a review of the following CalPERS documents:

- Detailed project plan (Microsoft project: RRP 2008 revised 3-6, dated 11/30/2007)
- 2008 Rate Development Process, created March 20, 2007
- 2008 Rate Renewal Request – Blue Shield Extended Network
- 2008 Rate Renewal Request – Blue Shield High Performance Network
- 2008 Rate Renewal Request – Blue Shield Traditional
- 2008 Rate Renewal Request – Kaiser
- Agenda and packages for the Health Benefits Committee meetings for the period February 2007 through June 2007

Watson Wyatt also conducted interviews with:

- Certain Health Benefit Committee members, as schedules allowed
- CalPERS staff: Sandra Felderstein, Kathleen Donneson, James Debenedetti
- Mercer lead consultant, Chuck Hartwig

Recommendations

1. A high level timeline of activities denoting key decision dates should be prepared prior to January 2008. This timeline of activities is to specifically denote when the Committee will have information to make key decisions and when key decisions need to be made.

Note: we understand that such a project plan will be presented to the Health Benefits Committee at the December meeting.

2. Add the standing agenda item “Status of Rate Negotiation Process” to the Health Benefits Committee meetings for the period January through June of each year. The purpose of this agenda item is to keep the Committee informed of upcoming information and decisions, and allow the Committee members to ask about timing of events.

3. Improve the amount and level of communications between Staff and the HBC on rate negotiations. There are many different levels of expertise on the HBC and it would be prudent to find the delicate balance between too little information and too much data. Staff clearly has a thorough understanding of the rate negotiation analytical requirements, is very closely involved in the process, and generates very effective outcomes. However, their efforts may not always be translated in a consistent and effective manner to the Health Benefits Committee.



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